

Message Text

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INFO OCT-01 AF-06 EUR-12 EA-10 NEA-09 ISO-00 PCH-02 /047 R

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TO AMEMBASSY ABU DHABI

AMEMBASSY DUBLIN

AMCONSUL LOURENCO MARQUES

AMEMBASSY PORT LOUIS

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E.O. 11652: N/A

FOLLOWING REPEAT USIA WIRELESS FILE ITEM IPS 7 (USIA TAPE
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QUOTE

TEXT: SECRETARY KISSINGER ADDRESS IN KANSAS CITY, MAY 13
(5000)

KANSAS CITY, MISSOURI, MAY 13--FOLLOWING IS THE TEXT OF
SECRETARY KISSINGER'S ADDRESS BEFORE THE KANSAS CITY INTER-
NATIONAL RELATIONS COUNCIL, MAY 13, ON "STRENGTHENING THE
WORLD ECONOMIC STRUCTURE":

(BEGIN TEXT)

YESTERDAY I SPOKE OF THE POLITICAL CHALLENGES FACING US
IN FOREIGN POLICY--THAT WE HAVE A VAST AGENDA AHEAD OF US,
THAT THE WORLD IS POISED ON THE BRINK OF A NEW ERA OF ACHIEVE-
MENT OR ONE OF CHAOS, THAT AMERICA'S ROLE WILL BE VITAL.

OUR CHALLENGES IN THE ECONOMIC FIELD ARE NO LESS URGENT
AND IMPORTANT. TODAY I WILL DISCUSS THE INTERNATIONAL ECONOMIC
SYSTEM AND SET FORTH A COMPREHENSIVE AMERICAN APPROACH TO

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THE MAJOR ISSUES AT HAND.

THE PARAMOUNT NECESSITY OF OUR TIME IS THE PRESERVATION OF
PEACE. BUT HISTORY HAS SHOWN THAT INTERNATIONAL

POLITICAL STABILITY REQUIRES INTERNATIONAL ECONOMIC STABILITY.

ORDER CANNOT SURVIVE IF ECONOMIC ARRANGEMENTS ARE CONSTANTLY BUFFETED BY CRISIS OR IF THEY FAIL TO MEET THE ASPIRATIONS OF NATIONS AND PEOPLES FOR PROGRESS.

THE UNITED STATES CANNOT BE ISOLATED, AND NEVER HAS BEEN ISOLATED, FROM THE INTERNATIONAL ECONOMY. WE EXPORT 23 PERCENT OF OUR FARM OUTPUT AND 8 PERCENT OF OUR MANUFACTURES. WE IMPORT FAR MORE RAW MATERIALS THAN WE EXPORT; OIL FROM ABROAD IS CRITICAL TO OUR WELFARE. AMERICAN ENTERPRISE OVERSEAS CONSTITUTES AN ECONOMY THE SIZE OF JAPAN'S. AMERICA'S PROSPERITY COULD NOT CONTINUE IN A CHAOTIC WORLD ECONOMY.

CONVERSELY, WHAT THE UNITED STATES DOES --OR FAILS TO DO-- HAS AN ENORMOUS IMPACT ON THE REST OF THE WORLD. WITH ONE THIRD OF THE OUTPUT OF THE NON-COMMUNIST WORLD, THE AMERICAN ECONOMY IS STILL THE GREAT ENGINE OF WORLD PROSPERITY. OUR TECHNOLOGY, OUR FOOD, OUR RESOURCES, OUR MANAGERIAL GENIUS AND FINANCIAL EXPERTISE, OUR EXPERIENCE OF LEADERSHIP, ARE UNMATCHED. WITHOUT US, THERE IS NOT PROSPECT OF SOLUTION. WHEN WE ARE IN RECESSION, IT SPREADS; WITHOUT AMERICAN EXPANSION, THE WORLD ECONOMY TENDS TO STAGNATE.

FOR THIRTY YEARS, THE MODERN ECONOMIC SYSTEM CREATED AT THE BRETTON WOODS CONFERENCE IN 1944 HAS SERVED US WELL. ITS BASIC GOALS--OPEN, EQUITABLE AND EXPANDING TRADE, THE STABILITY AND ORDERLY ADJUSTMENT OF CURRENCIES, COORDINATION IN COMBATTING INFLATION AND RECESSION--HAVE LARGELY BEEN ACHIEVED. WORLD GROWTH HAS SURPASSED ANY PRIOR PERIOD OF HISTORY.

BUT THE SYSTEM IS NOW UNDER SERIOUS STRESS. IT FACES SHORTAGES AND DISPUTES OVER NEW ISSUES, SUCH AS ENERGY, RAW MATERIALS, AND FOOD. AND MANY OF ITS FUNDAMENTAL PREMISES ARE CHALLENGED BY THE NATIONS OF THE DEVELOPING WORLD.

OBVIOUS CRISES ARE THE EASIEST TO MEET; THE DEEPEST CHALLENGES TO MEN ARE THOSE THAT EMERGE IMPERCEPTIBLY, THAT DERIVE FROM FUNDAMENTAL CHANGES WHICH, IF NOT ADDRESSED, PORTEND UPEHAVALS IN THE FUTURE. THESE CONTEMPORARY CHALLENGES TO THE WORLD ECONOMIC STRUCTURE MUST BE OVERCOME, OR WE FACE NOT ONLY AN END TO THE GROWTH OF THE LAST THIRTY YEARS BUT THE SHATTERING OF THE HOPES OF ALL OF MANKIND FOR A

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BETTER FUTURE. OUR ECONOMIC STRENGTH IS UNMISTAKABLE. BUT WHAT IS TESTED NOW IS OUR VISION AND OUR WILL--AND THAT OF THE OTHER NATIONS OF THE WORLD.

THE EXISTING SYSTEM:

THE INTERNATIONAL ECONOMIC SYSTEM HAS BEEN BUILT ON THESE CENTRAL ELEMENTS:

- OPEN AND EXPANDING TRADE;
 - FREE MOVEMENT OF INVESTMENT CAPITAL AND TECHNOLOGY;
 - READILY AVAILABLE SUPPLIES OF RAW MATERIALS; AND
 - INSTITUTIONS AND PRACTICES OF INTERNATIONAL COOPERATION.
- WITHIN THIS FRAMEWORK, OVER THE PAST QUARTER CENTURY, THE

INDUSTRIALIZED COUNTRIES HAVE MAINTAINED AN ALMOST CONTINUOUS RECORD OF ECONOMIC GROWTH. THE DEVELOPING COUNTRIES HAVE MADE UNPRECEDENTED ADVANCES, THOUGH THEIR PROGRESS HAS BEEN UNEVEN.

AFTER THE EXPERIENCE OF THE 1930S, THE POSTWAR SYSTEM WAS DESIGNED--WITH THE UNITED STATES PLAYING A LEADING ROLE--TO SEPARATE ECONOMIC ISSUES FROM POLITICAL CONFLICT AND TO SUBJECT THEM AS MUCH AS POSSIBLE TO AGREED MULTILATERAL PROCEDURES. THE RULES WERE DESIGNED TO RESTRAIN UNILATERAL ACTIONS THAT COULD CAUSE ECONOMIC INJURY TO OTHERS.

THE WORLD'S ECONOMIC GROWTH WITHIN THIS FRAMEWORK HAS BEEN SIMULTANEOUSLY THE CAUSE AND THE RESULT OF GROWING INTERDEPENDENCE AMONG NATIONS. REVOLUTIONS IN COMMUNICATION AND TRANSPORTATION HAVE SHRUNK THE PLANET. THE GLOBAL MOBILITY OF CAPITAL, MANAGEMENT AND TECHNOLOGY, AND MATERIALS HAS FACILITATED THE GROWTH OF INDUSTRY. WORLD TRADE HAS ENCOURAGED SPECIALIZATION AND THE EFFICIENT DIVISION OF LABOR, WHICH IN TURN HAVE STIMULATED FURTHER EXPANSION. THE RECESSION AND INFLATION OF THE LAST FEW YEARS--WHICH SPREAD AROUND THE WORLD--HAVE REMINDED US THAT NATIONS THRIVE OR SUFFER TOGETHER. NO COUNTRY--NOT EVEN THE UNITED STATES--CAN SOLVE ITS ECONOMIC PROBLEMS IN ISOLATION.

CONSCIOUSNESS OF INTERDEPENDENCE HAS BEEN MOST SUCCESSFULLY IMPLEMENTED AMONG THE INDUSTRIALIZED COUNTRIES. WHEN THE ENERGY CRISIS FIRST HIT US, THE INDUSTRIAL COUNTRIES AGREED THAT THEY WOULD NOT RESORT TO UNILATERAL, RESTRICTIVE TRADE MEASURES TO MAKE UP THE PAYMENTS DEFICITS CAUSED BY HIGH OIL PRICES. THAT PLEDGE WAS RESPECTED, AND WILL BE RENEWED THIS YEAR.

AND LAST FALL, AS THE RECESSION WORSENER, THE PRESIDENT
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HELD A SERIES OF CONVERSATIONS WITH GERMAN, JAPANESE, BRITISH AND FRENCH LEADERS TO DEVISE A COORDINATED STRATEGY FOR ECONOMIC RECOVERY. THESE POLICIES HAVE BEGUN TO BEAR FRUIT. THE ADVANCED INDUSTRIALIZED COUNTRIES HAVE UNDERSTOOD THE IMPERATIVE OF COORDINATING THEIR ECONOMIC POLICIES.

AS OUR ECONOMIES NOW TURN TOWARD EXPANSION, WE MUST ENSURE THAT OUR POLICIES REMAIN COORDINATED, PARTICULARLY FOR THE CONTROL OF INFLATION WITH ITS ECONOMIC COSTS AND ATTENDANT SOCIAL DANGERS.

AGAINST THIS BACKGROUND OF COHESION, THE INDUSTRIAL COUNTRIES CAN ACT WITH RENEWED CONFIDENCE ACROSS THE ENTIRE RANGE OF POLITICAL, ECONOMIC, AND SECURITY ISSUES. THE ANNUAL MINISTERIAL MEETING LATER THIS MONTH OF THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT IS THEREFORE OF GREAT SIGNIFICANCE. THIS BODY, COMPOSED OF THE INDUSTRIALIZED COUNTRIES OF NORTH AMERICA, EUROPE AND ASIA, WILL ASSESS WHERE WE STAND AND DISCUSS EVEN CLOSER COORDINATION AND JOINT ACTIONS IN ECONOMIC POLICIES. SECRETARY SIMON AND I WILL REPRESENT THE UNITED STATES.

THE CHALLENGE FROM THE DEVELOPING WORLD:

GLOBAL INTERDEPENDENCE IS A REALITY. THERE IS NO ALTERNATIVE TO INTERNATIONAL COLLABORATION IF GROWTH IS TO BE SUSTAINED. BUT THE WORLD ECONOMIC STRUCTURE IS UNDER INCREASING CHALLENGE FROM MANY COUNTRIES WHICH BELIEVE THAT IT DOES NOT FAIRLY MEET THEIR NEEDS.

THE CHALLENGE FINDS ITS MOST ACUTE AND ARTICULATE EXPRESSION IN THE PROGRAM ADVANCED IN THE NAME OF THE SO-CALLED THIRD WORLD. THIS CALLS FOR A TOTALLY NEW ECONOMIC ORDER, FOUNDED ON IDEOLOGY AND NATIONAL SELF-INTEREST. IT IS STIMULATED BY RESENTMENTS OVER PAST EXPLOITATION AND IT IS SUSTAINED BY THE VIEW THAT THE CURRENT SYSTEM IS LOADED AGAINST THE INTERESTS OF THE DEVELOPING COUNTRIES. ONE OF THE CENTRAL PROPOSALS IS THAT THE PRICES OF PRIMARY PRODUCTS SHOULD BE SET BY INTERNATIONAL AGREEMENTS AT NEW HIGH LEVELS AND THEN PEGGED TO AN INDEX OF WORLD INFLATION. THE OBJECTIVE AS WITH THE OIL PRICE INCREASES, IS A MASSIVE REDISTRIBUTION OF THE WORLD'S WEALTH.

THIS CHALLENGE HAS MANY ASPECTS. AT ONE LEVEL, IT IS AN EFFORT TO MAKE THE AVAILABILITY OF VITAL NATURAL RESOURCES DEPEND ON POLITICAL DECISION, PARTICULARLY WITH RESPECT TO ENERGY, BUT INCREASINGLY INVOLVING OTHER MATERIALS AS WELL.
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MORE FUNDAMENTALLY, IT IS A RESULT OF THE NEW DISPERSION OF ECONOMIC POWER, AMONG DEVELOPED AND DEVELOPING COUNTRIES THAT SPRINGS FROM THE UNPRECEDENTED GLOBAL ECONOMIC EXPANSION OF THE LAST THIRTY YEARS.

THE UNITED STATES IS PREPARED TO STUDY THESE VIEWS ATTENTIVELY, BUT WE ARE CONVINCED THAT THE PRESENT ECONOMIC SYSTEM HAS GENERALLY SERVED THE WORLD WELL. WE ARE PREPARED TO CONSIDER REALISTIC PROPOSALS, BUT WE ARE CONVINCED THAT POORER NATIONS BENEFIT MOST FROM AN EXPANDING WORLD ECONOMY. HISTORY HAS PROVED THE PROSPERITY OF EACH NATION REQUIRES EXPANSION OF GLOBAL PROSPERITY. THIS SHOULD BE THE FOCUS OF OUR EFFORTS.

THE UNITED STATES IS CONVINCED THAT AN INTERNATIONAL SYSTEM OVER-SHADOWED BY THE RIVALRY OF NATIONS OR BLOCS WILL PRODUCE INSTABILITY AND CONFRONTATION. THIS WILL PROVE DISASTROUS TO EVERY NATION--BUT ABOVE ALL TO THE WEAKEST AND THE POOREST.

THE UNITED STATES THEREFORE IS COMMITTED TO A COOPERATIVE APPROACH. WE RECOGNIZE THAT AN INTERNATIONAL ORDER WILL BE DURABLE ONLY IF ITS MEMBERS TRULY ACCEPT IT. AND WHILE THE PARTICIPATION OF DEVELOPING COUNTRIES HAS INCREASED, IT IS CLEAR THAT THE ENERGY PRODUCERS AND THE EMERGING NATIONS IN LATIN AMERICA, ASIA AND AFRICA HAVE BELIEVED THEMSELVES TO BE OUTSIDE THE SYSTEM. WE HAVE A DUTY TO WARN AGAINST, AND TO RESIST, CONFRONTATION. BUT WE ARE PREPARED TO STRENGTHEN AND EXPAND THE INTERNATIONAL ECONOMIC SYSTEM.

A SERIOUS CONCERN MUST BE THE NEEDS OF THE POOREST. THEY HAVE BEEN THE MOST GRIEVOUSLY AFFECTED BY THE FOOD AND ENERGY CRISES OF THE PAST TWO YEARS. THEIR PROSPERITY WOULD CONTRIBUTE TO OURS. AND THEIR PARTICIPATION IN THE GLOBAL ECONOMY IS REQUIRED SO THAT ALL NATIONS, AND NOT ONLY THE RICHEST, HAVE A STAKE IN THE WORLD WHICH WE ARE BUILDING.

LET ME NOW TURN TO THE THREE MOST URGENT CHALLENGES ON THE ECONOMIC AGENDA: ENERGY, FOOD AND PRIMARY COMMODITIES. ENERGY:

IT IS IN ENERGY THAT THE CHALLENGE TO THE ECONOMIC SYSTEM HAS BEEN THE MOST EFFECTIVE AND HAS HAD THE MOST SEVERE IMPACT.

FOR YEARS THE UNITED STATES AND OTHER INDUSTRIAL COUNTRIES BUILT THEIR PROSPERITY ON EVER-INCREASING IMPORTS OF INEXPENSIVE FOREIGN OIL. NOW WE SEE THAT BOTH THE PRICE AND UNCLASSIFIED UNCLASSIFIED

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AVAILABILITY OF THOSE SUPPLIES CAN BE DETERMINED BY DECISIONS OVER WHICH WE HAVE NO INFLUENCE. OUR JOBS, OUR OUTPUT, OUR FUTURE PROSPERITY ARE AT RISK.

IN RESPONSE, AT UNITED STATES INITIATIVE, EIGHTEEN MAJOR INDUSTRIAL COUNTRIES CREATED THE INTERNATIONAL ENERGY AGENCY. TO COORDINATE OUR EFFORTS IN A COMMON STRATEGY.

OUR FIRST RESPONSIBILITY WAS TO PROTECT OURSELVES AGAINST EMERGENCIES. WE HAVE TO BE PREPARED TO DETER THE USE OF OIL OR PETRO-DOLLARS AS POLITICAL WEAPONS OR TO DEFEND OURSELVES IF WE ARE GIVEN NO CHOICE. TO THIS END, WE AND OUR PARTNERS HAVE DEVELOPED A COMPREHENSIVE PLAN TO BUILD UP OIL STOCKS, COORDINATE CONSERVATION MEASURES, AND SHARE AVAILABLE SUPPLIES IN THE EVENT OF A NEW EMBARGO.

WE HAVE ALSO AGREED ON A 25 BILLION DOLLARS "FINANCIAL SAFETY NET" TO PROTECT AGAINST THE STRESSES OF LARGE OIL DEFICITS AND POSSIBLE FINANCIAL MANIPULATION.

THE SECOND OBJECTIVE OF THE STRATEGY IS TO BRING PRESSURE ON THE OIL PRICE THROUGH THE MARKET. IF WE ACT DECISIVELY TO REDUCE THE CONSUMPTION OF IMPORTED OIL AND DEVELOP ALTERNATIVE SOURCES, WE WILL SHARPLY REDUCE DEMAND. THE PRODUCERS CAN RESTRICT PRODUCTION TO MAINTAIN HIGH PRICES AND ALLOCATE THE CUTS AMONG THEM, BUT AT SOME POINT THE SEVERE DECREASE IN DEMAND WILL BECOME A BURDEN ON THOSE COUNTRIES WHO SEEK MAXIMUM REVENUE FOR DEVELOPMENT.

ACCORDINGLY, WE AND OUR PARTNERS FIRST SET JOINT CONSERVATION GOALS. WE THEN REACHED PRELIMINARY AGREEMENT ON A PLAN TO STIMULATE ALTERNATIVE SOURCES. THE PLAN CALLS FOR COOPERATION IN RESEARCH AND DEVELOPMENT, AND A COMMON MINIMUM PRICE MECHANISM TO PROTECT DOMESTIC ALTERNATIVE ENERGY SOURCES FROM COMPETITION FROM IMPORTED OIL. THE MINISTERS OF THE INTERNATIONAL ENERGY AGENCY MEET LATER THIS MONTH TO ACCELERATE THE COMMON EFFORT.

WE SHALL PROPOSE WAYS TO EXPLOIT OUR GREATEST ASSET--OUR TECHNOLOGICAL CAPABILITY AND SKILL PARTICULARLY IN THE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES.

IN THE END THE KEY TO THE INTERNATIONAL EFFORT WILL BE WHAT AMERICA DOES. WE USE FULLY HALF OF THE INDUSTRIAL WORLD'S ENERGY. IF WE BRING OUR CONSUMPTION UNDER CONTROL, SO WILL OTHER INDUSTRIAL COUNTRIES. INDEED, OTHER COUNTRIES ARE ALREADY AHEAD OF US IN ADOPTING NEW TAXES AND OTHER PROGRAMS TO CURB ENERGY USE. BUT IF WE DO NOT ACT

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NOW, WHILE RECESSION IS HOLDING DOWN DEMAND FOR OIL, OUR VULNERABILITY WILL GROW AGAIN WHEN OUR RECOVERY GAINS MOMENTUM.

THE CHOICE IS CLEAR: EITHER WE PASS NOW AN EFFECTIVE PROGRAM OF ENERGY CONSERVATION AND ENERGY DEVELOPMENT, OR WE BECOME DEPENDENT ON FOREIGN SOURCES FOR HALF OUR OIL WITH A FEW YEARS, AND CORRESPONDINGLY VULNERABLE TO POLITICAL PRESSURES OR MANIPULATION.

THE CONGRESS HAS BEFORE IT PRESIDENT FORD'S ENERGY PROGRAM. ITS DECISION IS THEREFORE CRITICAL TO OUR FUTURE WELL-BEING AND THAT OF THE INTERNATIONAL COMMUNITY.

ULTIMATELY, PRODUCERS AND CONSUMERS OF ENERGY MUST DEVELOP A NEW AND BALANCED RELATIONSHIP. A FIRST ATTEMPT AT DIALOGUE AT THE PREPARATORY MEETING CALLED BY PRESIDENT GISCARD D'ESTAING IN APRIL, DID NOT SUCCEED.

THE UNITED STATES WANTS TO SAY NOW THAT IT IS PREPARED TO ATTEND A NEW PREPARATORY MEETING. WE BELIEVE THAT THE MEETING SHOULD BE PREPARED THROUGH BILATERAL CONTACTS BETWEEN THE CONSUMERS AND PRODUCERS. THE UNITED STATES WILL INITIATE SUCH CONTACTS WITH ITS PARTNERS IN THE IEA, WITH THE GOVERNMENT OF FRANCE, AND WITH THE PRODUCERS. OUR OWN THINKING ON THE ISSUE OF RAW MATERIALS, AND THE MANNER IN WHICH IT CAN BE ADDRESSED INTERNATIONALLY, HAS MOVED FORWARD. WE CAN THUS RESUME THE DIALOGUE IN A NEW ATMOSPHERE. LET ME NOW TURN TO THE ISSUE OF RAW MATERIALS.

COMMODITIES:

THE THREAT TO OUR NATIONAL SECURITY FROM A DISRUPTION IN SUPPLIES OF MOST RAW MATERIALS IS LIMITED. WE DEPEND ON IMPORTED RAW MATERIALS FOR ONLY FIFTEEN PERCENT OF OUR TOTAL NEEDS; ONLY THREE PERCENT OF OUR RAW MATERIALS ARE IMPORTED FROM DEVELOPING COUNTRIES.

BUT WE DO HAVE A CONCERN FOR A FLOURISHING WORLD ECONOMY. IN RAW MATERIALS INTERDEPENDENCE IS AS REAL AS IN ENERGY. THERE EXIST COMMON INTERESTS IN A RELIABLE AND FLOURISHING TRADE ON MUTUALLY BENEFICIAL TERMS. IT IS IN OUR INTEREST, BECAUSE THE GROWTH OF THE INDUSTRIAL NATIONS WILL INCREASINGLY DEPEND ON RAW MATERIAL IMPORTS, AND BECAUSE OUR GROWTH DEPENDS ON A HEALTHY WORLD ECONOMY. IT IS IN THE INTEREST OF DEVELOPING COUNTRIES, BECAUSE THEIR EXPORTS ARE OFTEN THE PRINCIPAL SOURCE OF DEVELOPMENT FINANCING. IT IS IN THE INTEREST OF THE WORLD COMMUNITY, BECAUSE THE POOR-

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ER COUNTRIES CAN GAIN A SENSE OF RESPONSIBILITY AND PARTICIPATION ONLY FROM THE SENS THAT THEIR CONCERNS ARE TAKEN SERIOUSLY.

THE UNITED STATES IS AWARE OF THE DEPENDENCE OF MANY COUNTRIES ON THEIR EARNINGS FROM A SINGLE COMMODITY. IT IS LEGITIMATE AND REASONABLE THAT THEY SHOULD SEEK A RELIABLE, LONG-TERM STABLE SOURCE OF EARNED INCOME FOR THEIR DEVELOPMENT.

HOWEVER, WE DO NOT BELIEVE THAT TYING COMMODITY PRICES TO A WORLD INDEX OF INFLATION IS THE BEST SOLUTION.

FIRST, PRICE INDEXING WOULD STRENGTHEN THOSE LEAST IN NEED OF HELP BECAUSE MOST RAW MATERIALS PRODUCTION STILL TAKES PLACE IN THE INDUSTRIAL COUNTRIES; AND PRICE INDEXING WOULD HARM THOSE MOST IN NEED OF HELP BECAUSE THE POOREST, MOST POPULOUS STATES ARE NET IMPORTERS OF RAW MATERIALS. FINALLY, SUCH A SCHEME WOULD INTRODUCE ARTIFICIAL RIGIDITIES WHICH IS LIKELY TO RESULT IN MISALLOCATION OF RESOURCES AND SCARCE CAPITAL AND UNDER-UTILIZATION OF NEEDED PRODUCTIVE CAPACITY IN MANY PARTS OF THE WORLD.

WE ARE PREPARED TO DISCUSS THESE ISSUES IN A COOPERATIVE SPIRIT. WE UNDERSTAND THAT DEVELOPMENT OF MANY MINERAL RESOURCES IS BECOMING INCREASINLY DEPENDENT ON HEAVY CAPITAL INVESTMENT. THE EFFICIENT DEVELOPMENT OF LOWER-GRADE ORES NOW DEPENDS ON SOPHISTICATED TECHNOLOGY AND VERY LARGE-SCALE OPERATIONS. WE RECOGNIZE THAT EXCESSIVE SWINGS IN COMMODITY MARKETS ENTAIL HEAVY, PERHAPS GROWING COSTS. IN PERIODS OF SLACK DEMAND, SUBSTANTIAL EXCESS CAPACITY OFTEN APPEARS. IN PERIODS OF TIGHT DEMAND, SKYROCKETING PRICES FORCE COSTLY ADJUSTMENTS IN MANUFACTURING PROCESSES AND PRICING. WE REALIZE THAT THE ROLE OF PRIVATE CAPITAL, WHICH TRADITIONALLY HAS BEEN RESPONSIBLE FOR DEVELOPMENT OF MOST OVERSEAS MINERALS, IS BEING INCREASINGLY CHALLENGED ON POLITICAL GROUNDS. TO DEAL WITH THESE ISSUES, THE UNITED STATES WILL ADOPT THE FOLLOWING APPROACH:

-- FIRST, SINCE BOTH PRODUCERS AND CONSUMERS WANT A MORE RELIABLE BASIS TO DO BUSINESS, WE WILL PROPOSE THAT THE MULTILATERAL TRADE NEGOTIATIONS NOW UNDER WAY IN GENEVA DEVELOP NEW RULES AND PROCEDURES ON SUCH QUESTIONS AS FREER ACCESS TO SUPPLIES AND MARKETS, PROMOTION OF MINING AND PROCESSING INDUSTRIES, AND SETTLEMENT OF DISPUTES.

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-- SECONDLY, WE ARE PREPARED TO DISCUSS NEW ARRANGEMENTS IN INDIVIDUAL COMMODITIES, ON A CASE-BY-CASE BASIS AS CIRCUMSTANCES WARRANT.

-- THIRDLY, WE WILL PROPOSE THAT THE WORLD BANK EXPLORE NEW WAYS OF FINANCING RAW MATERIAL INVESTMENT IN PRODUCING

COUNTRIES. WE ARE PARTICULARLY INTERESTED IN EXPLORING NEW WAYS OF MOBILIZING CAPITAL AND BRINGING IT TOGETHER WITH OUTSIDE MANAGEMENT AND SKILLS.

IT IS CLEAR THAT BOTH PRODUCERS AND CONSUMERS HAVE MUCH TO GAIN FROM THE SETTLEMENT OF THE DISPUTES OVER RAW MATERIALS.

IT IS ALSO CLEAR THAT THESE ISSUES ARE BECOMING OF FUNDAMENTAL IMPORTANCE TO THE WORLD'S ECONOMIC -- AND POLITICAL -- FUTURE. THEY HAVE BEEN BROUGHT TO THE CENTER STAGE OF WORLD DIPLOMACY. THEY REPRESENT AN ERA OF POTENTIAL DIVISION. BUT THEY ALSO CONTAIN THE POSSIBILITY OF A NEW AND CHALLENGING AREA OF INTERNATIONAL COOPERATION.

AN IMPORTANT FIRST STEP WILL BE TO CONSIDER OUR APPROACH TOGETHER WITH OTHER INDUSTRIAL COUNTRIES. OTHER INDUSTRIALIZED COUNTRIES, THE UNITED KINGDOM IN PARTICULAR, HAVE ADVANCED A NUMBER OF PROPOSALS TO THIS END. RAW MATERIAL POLICY WILL BE A PREIMINARY FOCUS OF THE UPCOMING OECD MINISTERIAL, AND WE EXPECT THE OECD TO UNDERTAKE A MAJOR STUDY OF THE ISSUE.

THE UNITED STATES IS PREPARED TO DEAL WITH THE RAW MATERIALS QUESTION WITH ECONOMIC REALISM, POLITICAL IMAGINATION AND UNDERSTANDING FOR THE CONCERNS OF THE DEVELOPING WORLD.

FOOD

LET ME TURN NOW TO ANOTHER ISSUE ON WHICH INTERNATIONAL ACTION HAS ALREADY BEGUN -- AND MUST NOW BE ACCELERATED. THIS IS THE PROBLEM OF FOOD.

LAST NOVEMBER THE WORLD FOOD CONFERENCE WAS CONVENED IN ROME AT AMERICAN INITIATIVE. ON BEHALF OF PRESIDENT FORD, I ANNOUNCED A PROPOSAL FOR A LONG-TERM INTERNATIONAL EFFORT TO ELIMINATE THE SCOURGE OF HUNGER. FOR WE REGARD OUR GOOD FORTUNE AND STRENGTH IN THE FIELD OF FOOD AS A GLOBAL TRUST. WE RECOGNIZE THE RESPONSIBILITIES WE BEAR BY VIRTUE OF OUR EXTRAORDINARY PRODUCTIVITY, OUR ADVANCED TECHNOLOGY, AND OUR TRADITION OF ASSISTANCE. AND WE ARE CONVINCED THAT THE GLOBAL RESPONSE WILL HAVE AN IMPORTANT INFLUENCE ON THE NATURE OF THE WORLD THAT OUR CHILDREN INHERIT.

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THE ROME CONFERENCE REACHED BASIC AGREEMENT ON A COMPREHENSIVE PROGRAM IN BASIC AREAS: EXPANDING THE FOOD PRODUCTION OF THE MAJOR PRODUCERS; ACCELERATING PRODUCTION IN THE DEVELOPING COUNTRIES; IMPROVING THE MEANS OF FOOD DISTRIBUTION AND FINANCING; ENHANCING THE NUTRITIONAL QUALITY OF FOOD PRODUCTION; AND DEVELOPING A SYSTEM OF RESERVES TO ENSURE AGAINST FOOD EMERGENCIES. A FRAMEWORK FOR INTERNATIONAL COOPERATION WAS ESTABLISHED.

FORTUNATELY, GOOD CROPS THIS YEAR WILL EASE FOOD SUPPLY PROBLEMS. BUT WE CANNOT LET THIS LULL US INTO COMPLACENCY ABOUT THE LONGER TERM. WE CANNOT ESCAPE THE REALITY THAT THE WORLD'S TOTAL REQUIREMENTS FOR FOOD ARE GROWING DRAMATICALLY, NOT EASING. THE CURRENT GAP BETWEEN WHAT DEVELOPING

COUNTRIES PRODUCE THEMSELVES AND WHAT THEY NEED IS ABOUT 25 MILLION TONS; AT PRESENT RATES OF GROWTH, THE GAP IS EXPECTED TO DOUBLE OR TRIPLE TEN YEARS FROM NOW. THERE IS NO ESCAPE FROM THE WORLD'S DUTY TO DEAL WITH THE PROBLEM OF HUNGER WITH URGENCY.

TO MAINTAIN THE MOMENTUM BEGUN AT ROME ACTION IS NEEDED NOW IN THREE AREAS:

FIRST, FOR THE SHORT TERM, UNTIL A MAJOR EXPANSION OF WORLD PRODUCTION IS BROUGHT ABOUT, FOOD AID WILL CONTINUE TO BE VITAL. THE UNITED STATES SEES THIS AS A RESPONSIBILITY NOT ONLY OF MAJOR FOOD PRODUCERS, BUT OF ALL FINANCIALLY CAPABLE NATIONS. THE UNITED STATES HAS PROVIDED MORE THAN FOUR MILLION TONS OF FOOD AID IN ALL BUT ONE OF THE 20 YEARS OF OUR FOOD PROGRAM. WE WILL DO OUR UTMOST TO MAINTAIN THIS STANDARD OF PERFORMANCE.

SECONDLY, FOOD AID CAN ONLY BE A STOPGAP MEASURE. THE LONG-TERM SOLUTION WILL REQUIRE THAT FOOD PRODUCTION BE INCREASED TO ITS FULL POTENTIAL. FOOD PRODUCTION IN THE DEVELOPING COUNTRIES CAN DRAW ON A GREAT DEAL OF UNDER-UTILIZED LAND RESOURCES. AMERICAN ASSISTANCE WILL HENCEFORTH PLACE PRIMARY EMPHASIS ON RESEARCH, FERTILIZERS, BETTER STORAGE, TRANSPORT, AND PEST CONTROL. WE SHALL CONCENTRATE OUR AID CAPITAL IN THIS SECTOR OF ECONOMIC DEVELOPMENT.

THIRD, WE MUST MEET EMERGENCY SHORTAGES AND PROTECT WORLD SUPPLIES IN THE FACE OF CROP FAILURES AND OTHER CATASTROPHES. TO DO SO, WE HAVE PROPOSED AN INTERNATIONAL SYSTEM OF NATIONALLY HELD GRAIN RESERVES. WE MUST START NOW TO BUILD THEM.

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LET ME DISCUSS THIS ISSUE OF RESERVES MORE FULLY.

BEFORE 1972, THE WORLD HAD COME TO DEPEND UPON A FEW MAJOR PRODUCERS, PARTICULARLY THE UNITED STATES, TO MAINTAIN THE NECESSARY GRAIN RESERVES. NOW, AFTER THREE YEARS OF SHORTAGES AND EMERGENCIES, ADEQUATE RESERVES NO LONGER EXIST.

THE UNITED STATES HAS THEREFORE REMOVED ALL GOVERNMENTAL RESTRAINTS ON PRODUCTION. OUR FARMERS HAVE GONE ALL-OUT TO MAXIMIZE THEIR OUTPUT. THE WORLD MUST TAKE ADVANTAGE OF BETTER CROPS THIS YEAR TO RECONSTITUTE STOCKS. BUT THIS IS NOT ENOUGH.

IN MEETINGS LATER THIS MONTH, THE UNITED STATES WILL FORMALLY PROPOSE A COMPREHENSIVE INTERNATIONAL SYSTEM OF RESERVES, BASED ON THE FOLLOWING PRINCIPLES:

- TOTAL WORLD RESERVES MUST BE LARGE ENOUGH TO MEET POTENTIAL SHORTFALLS IN FOOD GRAINS PRODUCTION.
- GRAIN EXPORTERS AND IMPORTERS SHOULD AGREE ON A FAIR ALLOCATION OF RESERVE HOLDINGS, TAKING INTO ACCOUNT WEALTH, GRAIN PRODUCTIVE CAPACITY AND TRADE.
- THERE SHOULD BE AGREED INTERNATIONAL RULES OR GUIDELINES TO ENCOURAGE MEMBERS TO BUILD UP RESERVES IN TIMES

OF GOOD HARVEST.

-- EACH PARTICIPATING COUNTRY SHOULD BE FREE TO DETERMINE HOW ITS RESERVES WILL BE MAINTAINED AND WHAT INCENTIVES TO PROVIDE FOR THEIR BUILDUP, HOLDING, AND DRAW-DOWNS.

-- RULES OR GUIDELINES SHOULD BE AGREED IN ADVANCE FOR THE DRAW-DOWN OF RESERVES, TRIGGERED BY SHORTFALLS IN WORLD PRODUCTION. THERE MUST BE A CLEAR PRESUMPTION THAT ALL MEMBERS WOULD MAKE RESERVES AVAILABLE WHEN NEEDED, AND, CONVERSELY, THAT RESERVES WOULD NOT BE RELEASED PREMATURELY OR EXCESSIVELY AND THUS UNNECESSARILY DEPRESS MARKET PRICES.

-- IN TIMES OF SHORTAGE, THE SYSTEM MUST ASSURE ACCESS TO SUPPLIES FOR COUNTRIES THAT PARTICIPATE IN IT, AND THERE MUST BE SPECIAL PROVISION TO MEET THE NEEDS OF THE POOREST DEVELOPING COUNTRIES.

-- FINALLY THE SYSTEM MUST ENCOURAGE EXPANDED AND LIBERALIZED TRADE IN GRAINS.

THE UNITED STATES IS PREPARED TO HOLD AN IMPORTANT PART OF AN AGREED LEVEL OF WORLD RESERVES. IF OTHERS JOIN US IN NEGOTIATING SUCH A SYSTEM, THE OUTLINE OF INTERNATIONAL RESERVES AGREEMENT CAN BE COMPLETED BEFORE THE END OF THE UNCLASSIFIED
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YEAR.

CONCLUSION

THESE ARE THE PROBLEMS OF THE ECONOMIC STRUCTURE. THEY REPRESENT, IN THEIR SCOPE AND IMPLICATIONS, A BASIC CHALLENGE TO THE ECONOMIC SYSTEM OF THE PAST GENERATION AND A BASIC TEST OF THE WORLD'S POLITICAL FUTURE. THEY HAVE BECOME ONE OF THE CENTRAL CONCERNS OF OUR DIPLOMACY.

THE PRESENT INTERNATIONAL ECONOMIC SYSTEM HAS SERVED THE WORLD WELL. FUTURE PROSPERITY IN THIS UNITED STATES AND THROUGHOUT THE GLOBE, DEPENDS ON ITS CONTINUED GOOD PERFORMANCE. WE ARE PREPARED TO ENGAGE IN A CONSTRUCTIVE DIALOGUE AND TO WORK COOPERATIVELY ON THE GREAT ECONOMIC ISSUES. WE CANNOT ACCEPT UNREALISTIC PROPOSALS. BUT WE MUST ACT TO STRENGTHEN THE SYSTEM IN AREAS WHERE IT DOES NOT FUNCTION WELL.

THESE ISSUES ARE NOT TECHNICAL; THEY GO TO THE HEART OF THE PROBLEM OF INTERNATIONAL ORDER: WHETHER THE MAJOR INDUSTRIAL NATIONS AND THE DEVELOPING NATIONS CAN RESOLVE THEIR PROBLEMS COOPERATIVELY, OR WHETHER WE ARE HEADED FOR AN ERA IN WHICH ECONOMIC PROBLEMS AND POLITICAL CHALLENGES ARE SOLVED BY TESTS OF STRENGTH. WILL THE WORLD FACE UP TO THE IMPERATIVE OF INTERDEPENDENCE? OR WILL IT BE ENGULFED IN CONTESTS OF NATIONS OR BLOCS?

THE ROLE WHICH THE UNITED STATES TAKES WILL BE CRUCIAL. WILL WE FULFILL OUR RESPONSIBILITY OF LEADERSHIP? IF WE KNOW OUR OWN INTEREST WE WILL.

FOR THE UNITED STATES STILL REPRESENTS THE SINGLE GREATEST CONCENTRATION OF ECONOMIC WEALTH AND POWER TO BE FOUND ON THE PLANET. BUT WHAT IS ASKED OF US NOW MOST OF ALL IS

NOT OUR RESOURCES BUT OUR VISION AND WILL.

THE AMERICAN PEOPLE HAVE ALWAYS BELIEVED IN A WORLD OF COOPERATION RATHER THAN FORCE, OF NEGOTIATION RATHER THAN CONFRONTATION, AND OF FULFILLMENT OF THE ASPIRATIONS OF PEOPLES FOR PROGRESS AND JUSTICE. SUCH A WORLD WILL NEVER COME ABOUT WITHOUT OUR ACTIVE CONTRIBUTION. THE OPPORTUNITIES OPEN TO US ARE IMMENSE, IF WE HAVE THE COURAGE AND FAITH TO SEIZE THEM.

WE HAVE A STAKE IN THE WORLD'S SUCCESS. IT WILL BE OUR OWN SUCCESS. IF WE RESPOND TO THE CHALLENGE WITH THE VISION AND DETERMINATION THAT THE WORLD HAS COME TO EXPECT FROM AMERICA, OUR CHILDREN WILL LOOK BACK UPON THIS
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PERIOD AS THE BEGINNING OF AMERICA'S GREATEST TRIUMPHS.
(END TEXT)--ITEM UNQUOTE KISSINGER

NOTE BY OC/T: POUCHED PEKING.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TEXT, SPEECHES
Control Number: n/a
Copy: SINGLE
Draft Date: 14 MAY 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE112533
Document Source: ADS
Document Unique ID: 00
Drafter: EB:BJMOHLER
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: D750172-0162
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197505102/baaaajpu.tel
Line Count: 564
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 11
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: ONLY
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: SmithRJ
Review Comment: n/a
Review Content Flags:
Review Date: 24 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 JUL 2003 by maginmm>; APPROVED <02 FEB 2004 by SmithRJ>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: SOPN, US, (KISSINGER, HENRY A)
To: ABU DHABI
DUBLIN
LOURENCO MARQUES
PORT LOUIS
PEKING BY POUCH
Type: TE

Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006